



Environmental Services 3rd Follow-Up Audit

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**City of El Paso
Internal Audit Office
Environmental Services – 3rd Follow-Up Audit**

EXECUTIVE SUMMARY

The Internal Audit Department conducted a 3rd Follow-Up Audit on the original Environmental Services – Solid Waste Management Division Audit Report dated March 10, 2006. The 1st Follow-Up was conducted February 26, 2007 and the 2nd Follow-Up was conducted May 19, 2008. The original audit report contained seven findings and agreed upon recommendations. Listed below is a summary of the original seven findings identified in the audit report dated March 10, 2006 with the current status.

Finding No.	Description of Original Finding	Status
1	5 out of the 15 transactions (33%) contained invoices that did not agree with the unit prices listed in the corresponding contract.	Implemented
2	SWM is not properly reconciling fuel charges to Fleet Services' supporting documentation.	Implemented
3	SWM does not have a system in place to adequately reconcile the current inventory, distribution, and billing statements in connection with garbage containers.	Implemented
4	SWM does not maintain a current list of safety inventory including the total cost of the inventory on hand.	Implemented
5	There are two individuals responsible for placing orders for equipment purchases, receiving the equipment, and having custody of the equipment. This is a breakdown of a proper segregation of duties internal control.	Implemented
6	SWM has not reconciled its Fixed Assets and Accounts Receivable accounts to PeopleSoft.	Implemented
7	SWM's Standard Operating Procedures manual does not reflect current operations and is not being disseminated to employees.	Implemented

For a detailed explanation of each of the findings and the current observations please refer to the appropriate finding contained in the body of this Audit Report.

Based on the results of this Follow-Up Audit, we have determined that all seven of the original findings have been implemented. Below is a chart documenting the progress made by Environmental Services on the seven findings:

Type of Audit	Date of Audit	Results
Original Audit	March 10, 2006	7 Original findings identified
1 st Follow-Up Audit	February 26, 2007	3 Findings fully implemented 4 Findings in progress of implementation
2 nd Follow-Up Audit	May 19, 2008	5 Findings fully implemented 2 Findings in progress of implementation
3 rd Follow-Up Audit	February 11, 2009	7 Findings fully implemented

BACKGROUND

The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing* Standard 2500.A1 requires a post audit follow-up on all audit recommendations made to ascertain that appropriate action is taken on reported audit findings. This follow-up is being conducted of the Environmental Services – Solid Waste Management Division Audit Report dated March 10, 2006.

Environmental Services, previously known as Solid Waste Management, was a separate stand-alone department, with four functional areas, which included Administration, Recycling, Collections, and Disposal. The department is now functionally reporting to the Deputy City Manager for Development & Infrastructure as the Environmental Services Department. This reorganized department has eight divisions, which include Administration, Asbestos/Molds/Air Quality, Brownfields, Code Compliance, Environmental Management, EPA/TCEQ Compliance, Solid Waste Management, and Stormwater.

The Environmental Services is responsible for maintaining the cleanliness and healthful condition of the City of El Paso. Environmental Services provides the following services: residential collection, dead animal pickup, business garbage collection, special collections, household hazardous waste disposal, citizen collection stations, landfills, large commercial solid waste haulers, recycling, and environmental enforcement.

AUDIT OBJECTIVES

The audit objective of this Follow-Up Audit was to determine the status of the two pending recommendations not considered implemented during the second Follow-Up Audit.

SCOPE & METHODOLOGY

The Follow-Up Audit was limited to a review of the pending findings and recommendations detailed in the 2nd Follow-Up Audit Report dated May 19, 2008. The audit period covered the operations of the Environmental Services from May 19, 2008 to the present. Audit fieldwork included interviewing key personnel, reviewing documents, observations, and testing management processes to determine the status of each recommendation.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

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ORIGINAL FINDINGS, ORIGINAL RECOMMENDATIONS, MANAGEMENT'S RESPONSE TO ORIGINAL FINDINGS, CURRENT OBSERVATION, AND STATUS

Based on the results of follow-up test work, each original finding recommendation will be designated with one of the following four status categories:

<i>Implemented</i>	The finding has been addressed by implementing the original corrective action or an alternative corrective action.
<i>In Progress</i>	The corrective action has been initiated but is not complete.
<i>Not Applicable</i>	The recommendation is no longer applicable due to changes in procedures or changes in technology.
<i>Not Implemented</i>	The recommendation was ignored, there were changes in staffing levels, or management has decided to assume the risk.

Original Finding 1

Expenditures Review Process

A review of 15 transactions conducted by Solid Waste Management between the periods of August 24, 2005 thru November 30, 2005 was performed. 5 out of the 15 transactions (33%) selected for review contained invoices that did not agree with the unit prices listed in the corresponding contract.

Vendor	Exceptions
Bazaar Uniforms-City Wide Contract	3 out of 6 (50%) invoices reviewed did not match the unit prices listed in the contract. 4 out of 6 (66.7%) invoices do not match the items ordered in the original requisition order.
Advance'd Temporaries-City Wide Contract	11 out of 18 (61.1%) invoices reviewed did not match the unit prices listed in either contract. 1 out of 18 (5.6%) invoices charged the city for Holiday pay (New Year's Day) for temporary employees.
RW Beck-SWM Dept. Contract	3 out of 3 (100%) invoices reviewed were inaccurately calculated according to the unit price rates listed in the contract. The contract lists hourly rate for Research Analyst to be \$120.00. RW Beck charged the City \$125.00 an hour. The City was overcharged by \$2,857.50 on the 3 invoices reviewed.
RM Personnel-City Wide Contract	20 out of 20 (100%) invoices did not provide amount of hours or hourly rate for temporary personnel thus preventing a comparison with the contract.
Ruiz Protective Service Inc.-SWM Contract	1 out of 12 (8.3%) invoices were not calculated correctly. 2 out of 12 (16.7%) invoices reviewed did not match the unit prices listed in the contract. SWM paid for an armed Security Guard for the Clint Landfill, but the approved contract and purchase order does not list an armed guard rate.

Recommendation

Solid Waste Management should monitor expenditures prior to payment processing by reviewing invoices for accuracy.

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Management's Response

Cross-checking of invoices with contracts will occur from now on. We have done some initial research on the vendor issues that were found. Our analysis shows the following:

Advanced Temporaries – Once we received an updated contract for this vendor all invoiced amounts were checked. There was an issue of not checking the rate to the title of the employee. The Temporaries in question are scheduled to leave 8/31/06.

RW Beck – An analysis was done and a credit owed to the City of El Paso was requested and received on 2/24/06 as a reduction of Invoice 0079125.

Ruiz Protective Svcs Inc. – The armed guard services were a special request for October and part of November as a onetime occurrence for the initial rollout of the new rates at the Clint Landfill. This was a verbal approval by the Director. This decision was based on a safety and security concern. No written approval is available.

Bazaar Uniforms and RM Personnel are still being checked and are expected to be resolved by the end of March.

Responsible Party

Yanahalte Alatorre, Accountant II
John Brady, Accountant IV

Implementation Dates:

Updated copies of Citywide contracts were received on 3/16/06 and the procedure of checking prices was implemented immediately.

First Follow-Up Observation

A review of 12 invoices that were paid during the month of January 2007 were selected for review in order to verify that what the contractor charged corresponds with what was established in the corresponding contract.

- One (1) out of twelve (12) 8% of the invoices reviewed did not agree with the unit prices listed in its corresponding contract.
- Seven (7) out of twelve (12) 58% of the invoices reviewed had not been previously reviewed for accuracy by Environmental Services prior to payment processing. Supporting documentation or third party confirmations had to be obtained in order for Internal Audit to make a determination that the invoice was in agreement with the corresponding contract.

First Follow-Up Status

In Progress. Second Follow-Up will be conducted.

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Second Follow-Up Observation

The recommendation to the original finding is still in progress and has not been fully implemented.

- One out of ten or 10% of the invoices (submitted by GOT Supply, Inc.) reviewed contained invoices that did not agree with the unit prices listed in the corresponding contract.
- Two out of ten or 20% of the invoices reviewed did not contain supporting documentation readily available in order to make a determination that the invoice price was in agreement with the contract.

Second Follow-Up Status

In Progress. Third Follow-Up will be conducted.

Current Observation

A review of eight invoices paid during the month of October 2008 were selected for review to verify that the contractor charges corresponds with established prices in the corresponding contract.

- Eight (8) out of eight (8) 100% of the invoices reviewed agreed with the unit prices listed in the corresponding contract.

Status

Implemented.

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Original Finding 2

Fleet Services

Solid Waste Management (SWM) is not properly reconciling fuel charges to Fleet Services' supporting documentation.

Recommendation

SWM should obtain supporting documentation in order to reconcile fuel purchases from Fleet Services. Per Fleet Services, the information is available to user departments. The information needs to be requested from Fleet Services or can be obtained electronically.

Management's Response

Have requested this information. Environmental Services met with General Services and they will be training an Environmental Services' employee to be able to run reports from the General Services' Software.

Responsible Party

Yanahalte Alatorre, Accountant II

Implementation Date

Request was made on 3/21/06. Training on the use of the General Services' System is expected to take place by end of May 2006. The recommendation will be fully implemented by 6/30/06.

First Follow-Up Observation

Environmental Services is obtaining supporting documentation from Fleet Services, in the form of Fleet Focus reports, in order to reconcile fuel purchases. Environmental Services should now implement a process to trace the information provided in the Fleet Focus fuel reports to each vehicle.

First Follow-Up Status

Implemented.

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Original Finding 3

Garbage Containers

SWM does not have a system in place to adequately reconcile the current inventory, distribution, and billing statements in connection with garbage containers. In 2005 SWM purchased 9,172 containers at a cost of \$360,873.60 and for 2006 SWM estimates it will purchase 9,000 to 10,000 containers at an estimated cost of \$500,000.00 (cost is higher due to a price increase from the vendor).

Recommendation

SWM should implement a system to adequately reconcile garbage container inventory.

Management's Response

An Access database will be developed in house in order to account for and locate containers. This will start with the new containers being purchased for the recycling program as well as all new purchases of containers for refuse collection. Existing inventory of containers will be added to the database as information is gathered through our route audits and investigations. However, most of the original 1997 and 1998 containers will be fully depreciated by FY08. It is not cost effective to go back 8 or 9 years to recreate a database for these units.

Responsible Party:

John Brady, Accountant IV

Implementation Date

This new program is expected to be in place by September 30, 2006. Existing units will be added to the database on an ongoing basis.

Chief Internal Auditor's Response

Environmental Services is assuming a risk in waiting until 9/30/06 to fully implement this recommendation. Solid Waste Management is planning on purchasing over \$500,000.00 in containers for the 2006 Fiscal Year. Solid Waste Management purchased \$360,873.60 in containers for Fiscal Year 2005. The internal control of safeguarding City of El Paso's assets is critical to maintaining proper stewardship of financial resources.

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First Follow-Up Observation

- Environmental Services still does not have a system in place to adequately reconcile the current inventory, distribution, and billing statements in connection with the grey garbage containers.
- An Access database has not been implemented or initiated in order to account for and locate containers as stated in the Management's response to the original finding.
- Inventory is currently being taken of the new blue recycling bins as they are being distributed. The recycling bin inventory is currently being entered into Excel and will later be uploaded into an Access database and /or the PDS system.

If Environmental Services can accomplish this for the blue recycling containers, it can do the same for the grey garbage containers. It may be too late to account for the grey garbage containers that have already been issued, but Environmental Services should start accounting for all new purchases of the grey containers. By not inventorying the grey garbage containers, Environmental Services is assuming the risk of not safeguarding City owned property for receptacles amounting to approximately \$43 a container.

First Follow-Up Status

In Progress. Second Follow-Up will be conducted.

Second Follow-Up Observation

Based on our review of the current inventory, distributed inventory, and billing statements in connection with garbage containers, we were able to determine that improvements have been made within Environmental Services' processes to track current and distributed containers, but additional work will need to be conducted in order for the recommendation to the original finding to be fully implemented. Our third Follow-Up Audit of Environmental Services will focus on:

- A review of current processes to reconcile the Public Service Board (PSB) container counts to the newly implemented Environmental Services "Container Issued Inventory" Access database.
- A review of current processes to reconcile the physical inventory "on-hand" in order to validate the accuracy of the year-end physical inventory count provided to the Environmental Services accounting section by Environmental Services warehouse personnel.

Second Follow-Up Status

In Progress. Third Follow-Up will be conducted.

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Current Observation

After reviewing the current processes of reconciling Environmental Services’ “Garbage Can Inventory” to the El Paso Water Utilities records, we were able to identify that progress has been made since the inception of the audit process. Our analysis of Environmental Services’ database indicated the existence of 140,858 addresses. The El Paso Water Utilities database contained 159,891 addresses, which are billed monthly to City of El Paso’s residents. This analysis supports the assumption that 88% of what El Paso Water Utility bills for monthly are accounted for by Environmental Services.

However, there are risks associated with Environmental Services’ assumptions in the accumulation of their database of 140,858 addresses. These risks are as follows:

- The database contains 139,655 Blue recycling containers, 1,198 Gray containers, and 5 do not contain an identifying number. Environmental Services assumes that since there is a Blue container at the address then a Gray container is next to it. Work continues by Environmental Services to increase the Gray container database.
- There are 5,252 duplicate Blue recycling numbers and 4 duplicate Gray numbers, which could indicate a duplex or multi-family dwelling, but that has not been confirmed.

We understand the challenges involved in this type of project and realize the cost/benefit constraints management has encountered. We therefore accept management’s response. However, Environmental Services management should understand the risk involved in utilizing their method for calculating the number of containers issued.

Current Status

Implemented.

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Original Finding 4

Inventory

SWM does not maintain a current list of safety equipment inventory including the total cost of the inventory on hand.

Recommendation

SWM should maintain a current inventory list including total cost of safety equipment inventory on hand.

Management's Response

A review of the items to be maintained will be made and a running inventory created.

Responsible Party:

Martin Val Verde

Implementation Date

This will be implemented by 8/31/06

First Follow-Up Observation

- A physical inventory of all safety inventory was previously conducted once a year, and has now been increased to twice a year. The inventory has been updated to include the total cost of the inventory on hand.
- During the course of the audit it was identified that there are currently four individuals who have access to the safety equipment, making it difficult to hold one individual accountable for the merchandise and for the accuracy of the inventory records. Environmental Services should limit the number of personnel with access to the safety equipment.

First Follow-Up Status

Implemented.

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Original Finding 5

Segregation of Duties

There are two individuals responsible of placing orders for equipment purchases, receiving the equipment, and having custody of the equipment.

Recommendation

The functions of ordering, receiving, and maintaining custody of inventory should be separated so that no one individual has complete control over the entire inventory control process.

Management's Response

Purchases of equipment and supplies are now being received by employees other than those placing orders and having custody of the inventory.

Responsible Party

John Brady

Implementation Date:

Recommendation implemented March 31, 2006.

First Follow-Up Observation

The control of ordering, receiving, and maintaining equipment has not been segregated. The Stores Clerk II who placed and received the orders for safety supplies, uniforms, parts, and small tools during the original Environmental Services Audit performed in 2006 still continues to order and receive.

First Follow-Up Status

Not Implemented. Second Follow-Up will be conducted.

Second Follow-Up Observation

Based on our audit work performed of the equipment ordering process we were able to determine that the recommendation to the original finding has been implemented.

The recommendation to the original finding was in progress during our initial fieldwork. Subsequently Environmental Services proposed procedures for segregating the functions of ordering and receiving which satisfy the finding's recommendation.

Second Follow-Up Status

Implemented.

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Original Finding 6

GL Reconciliations

SWM is not reconciling its Fixed Assets and Accounts Receivable accounts to the General Ledger.

Recommendation

SWM needs to reconcile Fixed Assets and Accounts Receivable to the General Ledger on a consistent basis.

Management's Response

We are currently working on reconciling fixed assets and accounts receivable.

Responsible Party

Yanahalte Alatorre, Accountant II

Implementation Date:

Fixed Assets reconciliation will be completed by 4/30/06 and Accounts Receivable by 8/31/06.

Chief Internal Auditor's Response

Environmental Services is assuming a risk in waiting until 8/31/06 to fully implement this recommendation of reconciling its Accounts Receivable ledger. Solid Waste Management, as of 3/31/06, has \$466,751.20 in its Accounts Receivable ledger. The internal control of establishing a proper monitoring system is critical to maintaining management's governance and oversight in a proper financial reporting mechanism.

First Follow-Up Observation

- Both Accounts Receivable and Fixed Assets are being reconciled to the General Ledger. Accounts Receivable is being reconciled on a monthly basis and Fixed Assets are reconciled once a year at the end of the Fiscal year. Fixed assets are added to the department's records as they are purchased and at the end of the Fiscal year are transferred to the proper account group. The department's Fixed Asset records are maintained on an excel spreadsheet and they are reconciled against the Comptroller's records in PeopleSoft.
- In doing the Follow-Up Audit, we noticed that there is a discrepancy in what Environmental Services and PeopleSoft is reporting for Environmental Services' (Construction Work In Progress) CWIP account. Environmental Services is reporting \$7,005,685.64 on their records for CWIP, but PeopleSoft is reporting \$991,236.64; a difference of \$6,014,449.00.

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First Follow-Up Status

Implemented.

Original Finding 7

Standard Operating Procedures

- SWM Standard Operating Procedures manual does not provide guidance to employees in the following areas:
 - ❑ Expenditure process
 - ❑ Reconciliation process
 - ❑ Inventory management
 - ❑ Budget management
 - ❑ Ethics
 - ❑ Safety Issues (while there are policies and procedures in place, they were not included as part of the Standard Operating Procedures).
- The SWM's Standard Operating Procedures do not specifically address that:
 - ❑ Recycling revenues and tire disposal fees are received through the mail at the SWM office and processed in the same manner as payments received from billed customers.
 - ❑ Special waste removal fees and weed removal charges are invoiced to the customer and payments can be received through the mail or at the SWM office.
 - ❑ Refuse collection permits are paid at the SWM office by cash or check and the same cash procedures for handling cash at the SWM office apply.
 - ❑ Penalties and interest are received through the mail, through wire transfers made to the City, or received at the SWM office.
- There is only one copy of SWM Standard Operating Procedures in the office that is not being disseminated to employees.

Recommendation

SWM's Standard Operating Procedures manual should be updated to correct the deficiencies identified in this finding and should be disseminated to all SWM personnel as part of their on-going training.

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Management's Response

The Standard Operating Procedures Manual will be updated & disseminated over the next few months.

Responsible Party

Gloria Duran

Implementation Date:

This is expected to be completed by December 31, 2006.

Chief Internal Auditor's Response

Environmental Services is assuming a risk in waiting until 12/31/06 to fully implement this recommendation of updating its Policy & Procedure Manual. The current Policy and Procedure Manual lacks key directives and information that are critical to the operation of Solid Waste Management. The establishment of a Policy and Procedure Manual is critical to maintaining a strong system of internal controls and a fundamental component of establishing consistent standards of operation.

First Follow-Up Observation

The Environmental Services procedures have been updated but are still lacking guidance to employees in the following areas:

- Expenditure Process
- Reconciliation Process
- Inventory Management
- Budget Management
- Ethics
- Revenues from tire disposal fees, weed removal fees, and penalties and interest.

The Director of Environmental Services has agreed to make the originally recommended changes before the final version of the procedures is printed and disseminated to all Environmental Services personnel.

First Follow-Up Status

In Progress. Second Follow-Up will be conducted.

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Second Follow-Up Observation

Based on our review of the Environmental Services Standard Operating Procedures manual we were able to determine that the recommendation to the original finding has been implemented.

- The procedures have been updated to provide guidance to employees in the following areas, by making reference in the Environmental Services policies and procedures manual to the City of El Paso policies and procedures manual. The Environmental Services policies and procedures manual specifically addresses the following categories:
 - ❑ Expenditure Process – as noted in the Purchasing Manual.
 - ❑ Reconciliation Process – as noted in the COEP_CM Bank Reconciliation Pamphlet.
 - ❑ Inventory Management – as noted in the Capital Assets Manual.
 - ❑ Budget Management – as noted in the Budget Manual for OMB.
 - ❑ Ethics – as updated in the SOP on page 14.
 - ❑ Revenues from tire disposal fees, weed removal fees, and penalties and interest – as covered in a general sense in the updated SOP on pages 1 to 5.
- Ms. Smyth has represented by memo to the Internal Audit Office, that all employees have received a copy of the SOP manual, and that all new employees will also sign for their copy of the manual.

Second Follow-Up Status

Implemented.

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INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

Based on the results of this Follow-Up Audit, Environmental Services has implemented all seven recommendations contained in the original Environmental Services – Solid Waste Management Division Audit Report dated March 10, 2006.

We wish to thank the management and staff of the Environmental Services Department for their assistance and numerous courtesies extended during the completion of this Follow-Up Audit.

Signature on File

Edmundo S. Calderon, CIA, CGAP, MBA
Chief Internal Auditor

Signature on File

Miguel A. Ortega
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